

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SAJ-01 AID-05 CEA-01 CIAE-00

COME-00 EB-07 EA-06 FRB-03 INR-07 NEA-09 NSAE-00

RSC-01 OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01

OMB-01 STR-01 AGR-05 PRS-01 PA-01 USIA-06 SS-15 NSC-05

H-01 /110 W

----- 112585

R 211846Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7478

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

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E.O. 11652: N/A

TAGS: PINT, ELAB, UK

SUBJECT: THE ECONOMY - "SOLDIERING ON"

1. BEGIN SUMMARY - THE TUC-LABOR PARTY LIAISON COMMITTEE,
MEETING FOR THE FIRST TIME YESTERDAY (JANUARY 21) SINCE
THE GENERAL ELECTION, DECIDED TO SOLDIER ON WITH THE
SOCIAL CONTRACT IN ITS PRESENT FORM AND PERHAPS, AS ONE
OBSERVER REMARKED, "TO LIVE AND FIGHT ANOTHER DAY."

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THE COMMITTEE DID AGREE THAT CLOSER HEWING TO THE GUIDELINES OF THE CONTRACT WAS ESSENTIAL, AND IN THE BACKGROUND WERE OMINOUS REPORTS BY THE GOVERNMENT OF SOARING WAGES (28-1/2 PERCENT IN A YEAR) AND A SHARP JUMP IN AVERAGE EARNINGS. ALTHOUGH THE CHANCELLOR OF THE EX-CHEQUER DENIS HEALEY HELD HIS FIRE AT THE MEETING, HE LATER INDICATED DURING A TELEVISION INTERVIEW THAT IF THE SOCIAL CONTRACT SHOULD FAIL, HE WOULD BE FORCED TO TAKE MORE DRASTIC MEASURES. END SUMMARY

2. THE TUC-LABOR PARTY LIAISON COMMITTEE CONSISTS OF REPRESENTATIVES OF THE TUC, THE LABOR PARTY EXECUTIVE, AND MEMBERS OF THE PLP (PARLIAMENTARY LABOR PARTY), INCLUDING GOVERNMENT MINISTERS. IN ONE VITAL SENSE, IT IS A "PEACE-KEEPING" INSTITUTION AND YESTERDAY'S MEETING WAS A PRIME ILLUSTRATION OF THIS PARTICULAR FUNCTION. THE GOVERNMENT, INCLUDING THE PRIME MINISTER, THE CHANCELLOR AND OTHERS -- SUCH AS SHIRLEY WILLIAMS -- HAVE CONTINUOUSLY WARNED THE TRADE UNIONS - OFTEN IN HIGHLY PUBLICIZED DECLARATIONS - THAT THE ECONOMY WAS IN SERIOUS JEOPARDY. HEALEY, IN PARTICULAR, HAS CALLED FOR A REDUCTION IN THE SIZE OF WAGE INCREASES, ALTHOUGH SOME UNION LEADERS SEIZED UPON HIS STATEMENT AS A CALL FOR PAY CUTS, WHICH HE SINCE HAS BEEN AT PAINS TO DENY.

3. IT SOON BECAME CLEAR EVEN BEFORE THE TUC-LABOR PARTY LIAISON COMMITTEE MEETING THAT THE TUC LEADERSHIP WAS IN NO MOOD AT THIS STAGE TO ACCEPT ANY SIGNIFICANT CHANGES IN THEIR WAGE GUIDELINES UNDER THE SOCIAL CONTRACT. IN FACT, JUST PRIOR TO THE MEETING, DAVID BASNETT, A LEADING MEMBER OF THE TUC GENERAL COUNCIL AND OF ITS IMPORTANT ECONOMIC COMMITTEE, TOLD US THAT HE SAW NO REASON WHY THE GUIDELINES SHOULD NOW BE CHANGED. HE NOTED THAT THE TUC ANNUAL WAGE ROUNDS WERE ONLY HALF-COMPLETED AND HE ARGUED THAT -- APART FROM EXCEPTIONAL CASES -- THE CONTRACT WAS GENERALLY BEING OBSERVED (IN 80 PERCENT OF THE CASES) AND, AS HE PUT IT, "WAS WORKING." HE ACKNOWLEDGED THAT THERE WERE PROBLEMS IN THE ECONOMY, BUT HE SAID THAT MANY WORKERS WERE ALREADY BEGINNING TO SUFFER A SHARP DROP IN TAKE-HOME PAY AS A RESULT OF THE THREE-DAY WEEK LIMITED OFFICIAL USE

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IN SOME PLANTS AND THE LOSS OF OVERTIME PAY. HE ALSO CITED EXAMPLES IN HIS OWN UNION WHERE LOCAL BRANCHES HAVE AGREED TO REDUCE SIGNIFICANTLY THEIR CLAIMS BECAUSE THEIR EMPLOYER DEMONSTRATED TO THEM HE WAS IN SERIOUS ECONOMIC DIFFICULTY. HOWEVER, BASNETT ADDED THAT IF THE GOVERNMENT WERE TO SHOW CLEARLY THAT THE ECONOMY WAS IN SERIOUS DANGER, THE TUC WOULD BE PREPARED TO TAKE ANOTHER LOOK. IT WAS ALSO CLEAR, IN HIS VIEW, THAT SUCH

A SITUATION HAD NOT YET MATERIALIZED.

4. AS IT DEVELOPED, BASNETT'S VIEW WAS IN FACT THE CON-
CENSUS VIEW WHICH EMERGED FROM THE LIAISON COMMITTEE
MEETING, FOR THE GROUP DECIDED THAT INSTEAD OF "EARLY
CHANGES" THE TUC WOULD TRY TO ACHIEVE "FIRM ADHERENCE"
BY ITS AFFILIATES TO THE WAGE GUIDELINES OF THE SOCIAL
CONTRACT. THE COMMITTEE ALSO AVOIDED THE QUESTION
WHETHER WAGE INCREASES MUST BE IN DIRECT PROPORTION TO
THE INCREASES IN THE COST OF LIVING. CHANCELLOR HEALEY
DID EMPHASIZE THE GRAVITY OF THE ECONOMIC SITUATION
FACING THE COUNTRY WHEN HE SPOKE TO THE GROUP, BUT HE
ALSO CONTRIBUTED HIS SHARE TO THE "PEACE KEEPING" WORK
OF THE COMMITTEE BY DISCLAIMING WHAT HE DESCRIBED AS
FALSE INTERPRETATIONS OF HIS RECENT SPEECH.

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IN THE EVENT, LEN MURRAY, GENERAL SECRETARY OF THE TUC, LATER WAS REPORTED TO HAVE EXPLAINED THAT NONE OF THE VIEWS EXPRESSED BY THE GOVERNMENT ON THE ECONOMY WERE "CATAclySMIC."

5. WHERE DOES THAT LEAVE THE MATTER? FIRST, THIS IS ONLY THE FIRST ROUND SINCE THE ELECTION, AND THE LIAISON COMMITTEE WILL HAVE ANOTHER OPPORTUNITY TO DEAL WITH THE SAME THORNY ISSUES WHEN IT MEETS AGAIN AT THE END OF LIMITED OFFICIAL USE

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NEXT MONTH. SECONDLY, THE GNAWING PROBLEMS REMAIN AS DIFFICULT AS EVER. EVEN AS THE COMMITTEE WAS MEETING, THE DEPARTMENT OF EMPLOYMENT ANNOUNCED THAT BASIC WAGE RATES HAD MADE A SPECTACULAR JUMP TO 28.5 PERCENT DURING 1974, INCLUDING A 2.2 PERCENT INCREASE IN BASIC WAGES FOR DECEMBER ALONE. AT THE SAME TIME, THE INDEX OF AVERAGE EARNINGS, INCLUDING OVERTIME JUMPED BY 4.6 PERCENT IN NOVEMBER, THUS BRINGING THE INCREASE SINCE NOVEMBER 1973 TO 25.3 (DETAILS BY AIRGRAM). IT IS THE LAST FIGURE WHICH PARTICULARLY WORRIES GOVERNMENT ECONOMISTS SINCE IT IS AHEAD OF THE INCREASE IN THE BY THE GOVERNMENT ON SATURDAY, EVEN AFTER A "FISCAL DRAG" OF 3 OR 4 PERCENT IS TAKEN INTO CONSIDERATION. ("FISCAL DRAG" IS A RESULT OF WORKERS' INCREASING THEIR NOMINAL INCOME AND ALSO MOVING INTO HIGHER TAX BRACKETS.)

6. COMMENT: IT IS CLEAR THAT THE TIME IS NOT YET RIPE FOR THE GOVERNMENT TO FORCE A CHANGE IN POLICY. IN THE VIEW OF THE UNIONS, IT IS CERTAINLY PREMATURE TO ALTER IN ANY DRASTIC WAY THE GROUND RULES ON WAGES, AND ONE GOVERNMENT MINISTER, SECRETARY OF STATE FOR EMPLOYMENT MICHAEL FOOT, IS REPORTED TO SHARE THIS VIEW FOR NOW. THE GOVERNMENT MINISTERS WILL UNDOUBTEDLY CONTINUE TO MULL OVER ALTERNATIVES AND TO ISSUE WARNINGS AND PERHAPS -- AT A CERTAIN POINT IN THE FUTURE -- TO TRY TO ALTER THE SITUATION DRAMATICALLY. THE POSITION NOW IS TO "SOLDIER ON" AND HOPE FOR THE BEST.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCIAL STABILITY, POLICIES, MEETINGS, POLITICAL PARTIES, LABOR UNIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON00950
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750022-1108
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750134/aaaabdvc.tel
Line Count: 221
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2003 by MartinML>; APPROVED <10 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: THE ECONOMY - "SOLDIERING ON"
TAGS: PINT, ELAB, UK, TUC, PARLIAMENTARY LABOR PARTY
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006